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Chief, Planning and Review Staff

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Deputy Chief, Analysis Division

Evaluation of Bulgarian State Loan and Lottery Program

1. The attached evaluation of the Bulgarian State loan and lottery program has been prepared to answer the questions posed in the DDP memorandum of 10 November 1954.

2. Information contained in this evaluation is unclassified. The classification applies only to the analyst's opinions.

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ATTACHMENT

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EVALUATION OF THE BULGARIAN STATE LOAN AND LOTTERY PROGRAM

SUMMARY: The Bulgarian bond issues program, as one method of State financing, appears to be sound from a fiscal standpoint. Since the bonds are paid for out of personal income, the immediate effect on the economy is deflationary in that spending and consumption are delayed and turned into other channels. Under the lottery system, most subscribers to the loan receive no reward in any form for savings. This, however, has not deterred the Bulgarian workers from purchasing the bonds since subscription is practically compulsory, in spite of claims to the contrary. Dishonesty of State officials in describing the program as "voluntary", complete denial of interest to 65% of the loan subscribers, and withholding from the people the use of their personal funds for a period of 20 years are the principal grounds on which the program may be criticized.

Bulgarian State loans were floated in 1952 and 1954 in connection with the State long-term economic plans. The program for repayment of these loans is similar to that used by other Satellite governments and the USSR. Interest, as such, is not paid on these loans; instead, a specified proportion of the bonds are drawn for prizes of various sizes. (See Table 1 for scheduled drawings on 1952 State loan.)

The loans floated in 1952 and 1954 are alike in their principal provisions; each is for a total of 400,000,000 leva (\$58,800,000 at the official exchange rate), repayable in 20 years with subscriptions payable over a 10-month period. The sum total of prize money probably has been reduced for the 1954 loan schedule from that of 1952. On the 1952 loan, 35% of the serial numbers (based on bonds of 200-leva denominations) are scheduled to be drawn in the course of the 40 drawings, occurring twice a year for 20 years. Owners holding these bonds are entitled to prizes. Bonds to be redeemed before maturity also are selected by a series of drawings. Out of the total number of bonds 20% are to be paid off before maturity and the remaining 80% are redeemed only after 20 years. All bonds are to be redeemed at face value. Thus, for 65% of the total loan the subscribers receive no interest on the money invested, and for 80% of the loan the funds are tied up for 20 years. The bonds are negotiable; however, it is not known whether a market for them exists or, if so, whether they are sold at a discount.

The State budgets for 1953 and 1954 show income from State loans as 340 million and 400 million levas respectively. The offsetting expenditure on account of the State loan in 1954 is stated as 65.4 million leva. This expenditure would presumably include prizes and bond redemption.

In the course of the 20 years of the 1952 loan, the State was scheduled to pay 402.4 million leva in prizes, an amount slightly above the 400 million leva which would equal a simple interest rate of 5%. The Government decree on the State loan of 1952, stated that "the sum total of all prizes equals

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an average interest of 5% per annum for the 20-year term." The announcement of 1954 similarly claims a 4% average interest rate. This 4% rate is just above that of the United States on E-Series bonds. (If the amount realized on \$100 invested in U.S. savings bonds for the first 10 years were reinvested for another 10 years the total interest would amount to approximately \$78.00. On the Bulgarian 1954 loan, total prize money would average 80 leva per 100 leva invested.) From the fiscal point of view, the net returns on the Bulgarian loan should be at least as high as that realized by the U.S. Government since there is no ~~redemption~~ for 20 years and no redemption at the option of the purchaser as in the United States.

The lottery arrangement may be preferred by some purchasers and disliked by others. The attractiveness of the arrangements, however, is not pertinent to the sale of the bonds since the State has means of making subscription compulsory and loans are regularly oversubscribed. The advertisement of the loan as "voluntary" is a false description of the methods used. The central government assesses the various regions and districts where, in turn, the assessment is divided among institutions and individuals. Lists of workers and employees of State, cooperative, public, and private enterprises, offices, and organizations, as well as members of agricultural cooperatives, are listed and a record of the amount subscribed by each individual is kept in the enterprise where the subscription takes place. The usual assessment for a worker in industry or trade is the amount of his monthly wage. Peasant subscriptions are determined by appropriate administrative bodies. This method was used for the loans of 1952 and is reported to be the same in 1954.

Aside from the revenue-producing aspects, the loan program serves the same purpose as a tax, reducing individual incomes and expenditures and giving the State more control over resources. Bulgaria has been having difficulty in equating the purchasing power of the people with available quantities of consumers' goods and the loan serves the purpose of reducing inflationary pressures.

The program is less advantageous to the individual than to the State. He is deprived of a choice between present and future spending. In addition, the majority of those who purchase bonds receive no compensation for postponement of spending and the term of the loan is so long that many individuals cannot expect a return of their original investment within their lifetimes.

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TABLE 1

**Drawings for Prizes in Each of the Ten 40,000,000-leva
Sections of Bulgarian State Loan of 1952**

<u>Size of prize on 200-leva bond drawn in lottery</u>	<u>Number of prizes in each of 40 drawings</u>				<u>Total of 40 drawings for prizes</u>	
	<u>1st-10th drawing</u>	<u>11th-20th drawing</u>	<u>21st-30th drawing</u>	<u>31st-40th drawing</u>	<u>No. of bonds drawn</u>	<u>Value of prizes (in thous levas)</u>
40,000	1	1	1	1	40	1,600
20,000	4	4	4	4	160	3,200
10,000	6	6	6	6	240	2,400
4,000	20	20	20	20	800	3,200
2,000	20	20	20	20	800	1,600
1,000	44	44	44	44	1,760	1,760
400	1,805	1,705	1,605	1,505	66,200	26,480
Total numbers of winning tickets in section	1,900	1,800	1,700	1,600	70,000	40,240

Source: Government decree on State Loan, FBIS, 6 Oct. 1952, and translation from article in Ivestia, Vol. 3, No. 83, 7 Oct. 1952

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